Budget Presentation Issue Papers

February 12, 2009

OFFICE OF THE STATE BUDGET

Fiscal Year 2010
Agriculture Dairy Inspection Fee

Proposal

A new annual dairy inspection assessment fee is recommended in the Michigan Department of Agriculture (MDA) budget. Dairy farms from which milk is sold or offered for sale would pay one cent per one hundred pounds of milk sold, consistent with that of similar states. Approximately $700,000 in new restricted revenue would offset general fund of like amount and render the inspection program at 25 percent restricted revenue; 75 percent general fund. The Grade A Milk Law of 2001, and the Manufacturing Milk Law of 2001, would need to be amended accordingly.

Background

At present milk processing plants are paying a $5.00 per farm inspection fee. This fee has been unchanged since the 1990's. MDA last sought industry support for an industry fee increase in 2005. In lieu of support, the Michigan Milk Producers Association proposed a self regulatory pilot "Certified Industry Field Representative Inspection Program" (CIFRP), run by industry cooperatives. CIFRP was implemented in Huron, Tuscola, and Sanilac counties and while initially successful, MDA ultimately resumed inspection and enforcement responsibilities in December 2006.

The dairy inspection program within the MDA budget is charged with enforcing the Grade A Pasteurized Milk Ordinance - the milk safety standard for all 50 states - on 72 milk processing plants and 2,385 dairy farms operating in Michigan. The program is funded at $3.0 million, 98 percent of which is general funds. Federal resources and dairy licensing and inspection per-farm fees comprise the 2 percent.

Other Midwest dairy states fund their dairy inspection programs as follows:

- Illinois combines its food and dairy program at 90 percent general fund with corresponding licensing and sanitation fees.
- Indiana, while unlike Michigan in funding structure, provides $1.0 million or 100 percent general fund to implement its dairy program.
- Minnesota, comparable to Michigan in industry size and regulatory program scope, funds its program at 32 percent general fund with a corresponding seven-cent per hundredweight processing assessment fee.
- Ohio supports its program with 50 percent general fund and 50 percent dairy inspection fees on milk processors.
- Pennsylvania provides 99 percent general fund.
- Wisconsin appropriates 37 percent in general fund with the remainder derived via a dual assessment of ninety-six cents per hundred weight on Grade A milk, as well as a manufactured milk assessment of two cents per hundred weight.

OFFICE OF THE STATE BUDGET

Fiscal Year 2010
Agriculture Equine Industry Development Fund

Proposal

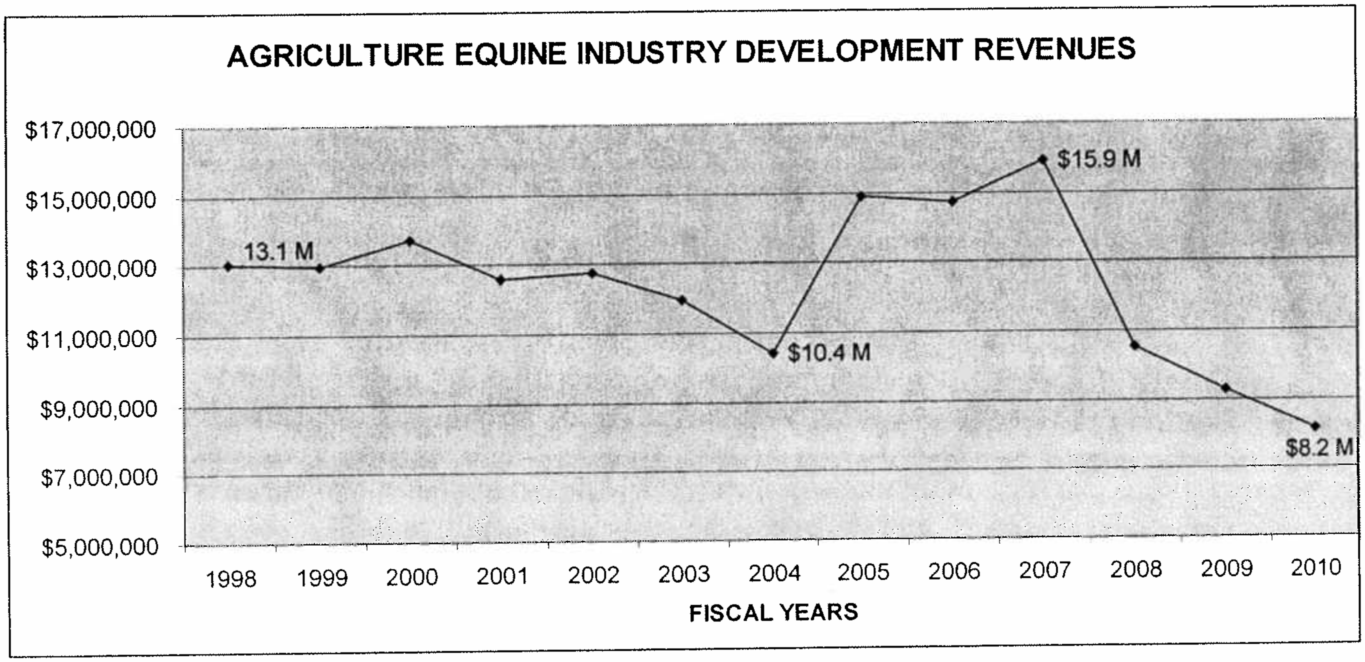
The fiscal year 2010 Executive Recommendation proposes aligning projected $8.1 million in Agriculture Equine Industry Development resources solely for support of equine industry purses, supplements and regulatory programs. Correspondingly, approximately $5.2 million in State Services Fee Fund support will no longer be utilized to subsidize agriculture equine programs.

Background

The horse racing industry as a whole has experienced growth challenges for over two decades. In Michigan, over the past decade alone, there have been four track closures out of a total of nine tracks beginning with the Hazel Park Race Course (Detroit) in 1998, the Saginaw Downs in 2005, the Great Lakes Downs (Muskegon) in 2007, and most recently the Jackson Harness Raceway in 2008, resulting in five tracks remaining. Horse track closures have been driven in part by negative growth in demand as fewer live race dates have occurred due to the high costs associated with the events outweighing the benefit associated with the races, as well as significant growth in demand for other entertainment venues – namely, casinos. As a result, horse race revenue has experienced a precipitous decline. Specifically, since 1998, horse racing revenue has declined by nearly $5.0 million or 40.0 percent from $13.1 million down to the anticipated fiscal year 2010 level of $8.1 million (see attached chart).

There have been major efforts over the years to augment the horse racing industry. Beginning in fiscal year 2002, nearly $3.6 million in State Service Fee Fund replaced general fund support in the Department of Agriculture budget to primarily offset equine revenue supported programs. In fiscal year 2004 the state services fee fund increased to a $5.2 million, of which, $1.3 million enabled another shift off of equine revenue for support within the Office of the Horse Racing Commissioner (ORC) appropriation. By fiscal year 2006, funding for the ORC had shifted entirely from Agriculture Equine support to State Services Fee fund support.

In fiscal year 2004 a portion of the Casino Wagering Tax revenue was earmarked for deposit into the Equine Fund to further support the industry and scheduled to sunset once permanent casinos in the City of Detroit were in place. With all but one permanent casino coming on-line in fiscal year 2008, the deposit of Casino Tax revenue will cease in fiscal year 2009 as the Greek Town casino will be fully operational. In light of horse race track closures, decreased racing dates, and tough economic times, it is likely that horse race industry revenues will continue to decline. Given the on-going pressures on the state budget and the need for a reform of government, an examination of subsidies to the horse racing industry is warranted.



MICHIGAN DEPARTMENT OF AGRICULTURE
Agriculture Equine Industry Development Revenue
FY98 - FY10

Fiscal Year	Horse Racing Simulcast Revenue	Casino Tax Revenue	Uncashed Tickets	Total Revenue
FY10 (est.)	$7,200,000	$420,000	$530,000	$8,150,000
FY09 (est.)	$8,553,532	$600,000	$127,116	$9,280,648
FY08	$7,794,280	$2,202,113	$532,847	$10,529,240
FY07	$8,747,399	$6,585,250	$578,498	$15,911,147
FY06	$9,452,259	$6,423,999	$648,730	$16,524,988
FY05	$10,446,900	$6,025,300	$664,000	$17,136,200
FY04	$11,335,300	$459,200	$694,100	$12,488,600
FY03	$11,341,500	$0	$699,100	$12,040,600
FY02	$12,060,916	$0	$656,923	$12,717,839
FY01	$12,024,284	$0	$720,858	$12,745,143
FY00	$11,813,224	$0	$805,583	$12,618,807
FY99	$12,942,225	$0	$533,687	$13,475,913
FY98	$13,055,592	$0	$0	$13,055,592
Totals	**$136,767,411**	**$22,715,862**	**$7,191,443**	**$166,674,716**

OFFICE OF THE STATE BUDGET
February 12, 2009

Department of Community Health: Expand health coverage to children- Children's Special Health Care Services: FY 2010

Proposal

This proposal increases Medicaid coverage for disabled children living in households with incomes between 200 percent and 300 percent of the federal poverty level. This expansion of Medicaid eligibility is possible through the Family Opportunity Act (a provision of the Deficit Reduction Act) which allows states to cover disabled children who meet SSI medical eligibility criteria up to 300 percent of the federal poverty level. Initial projections are that approximately 4,000 children would become eligible for Medicaid services through this provision. Of these 4,000 children, approximately 2,000 already receive specific diagnoses related services through the Children's Special Health Care Services (CSHCS) program. These children, as well as 2,000 more, will receive primary care services through Medicaid. Existing general fund from CSHCS will match $11.4 million in federal Medicaid dollars to finance this expansion.

Background

Currently, Medicaid covers children living in households with incomes that are up to 200 percent of the federal poverty level. The state also provides children health care coverage through the CSHCS program. Eligibility for the CSHCS program is based on diagnoses rather than income level. CSHCS only covers health care services related to the qualifying diagnoses. Parents pay a premium for coverage under the program which is based upon the family income. This expansion will allow children who are currently underinsured or without insurance to receive comprehensive health care coverage.

OFFICE OF THE STATE BUDGET
February 12, 2009

HEALTHY MICHIGAN FUND - FY 2009 and 2010

APP #	PROJECT	FY 2009 ENACTED	CSB	Reductions	FY 2010 Exec. Rec.
Chronic Disease, Injury Prevention and Health Promotion					
11384	Alzheimer's Information Network	$290,000			$290,000
11352	Cancer Prevention & Control	$1,728,900			$1,728,900
11360	Smoking Prevention	$3,688,400			$3,688,400
11387	Michigan Parkinson's Foundation	$50,000		($50,000)	$0
11390	Tobacco Tax Collection & Enforcement	$610,000			$610,000
11380	Chronic Disease Prevention (Cardiovascular)	$1,698,200			$1,698,200
11380	Chronic Disease Prevention (Osteoporosis)	$200,000		($200,000)	$0
11380	Chronic Disease Prevention (Arthritis)	$50,000		($50,000)	$0
11380	Chronic Disease Prevention (Huntington's Disease)	$50,000		($50,000)	$0
11363	Diabetes and Kidney Program	$2,315,200			$2,315,200
11393	Morris Hood Diabetes Program	$400,000		($400,000)	$0
11369	Physical Fitness, Nutrition & Health	$700,000		($700,000)	$0
	Subtotal	**$11,780,700**	**$0**	**($1,450,000)**	**$10,330,700**
Public Health Administration					
11268	Minority Health Grants & Contracts	$900,000			$900,000
	Subtotal	**$900,000**	**$0**	**$0**	**$900,000**
Family, MCH Services					
14274	Dental programs	$150,000			$150,000
14281	Family planning local agreements	$408,100			$408,100
14262	Local MCH Services	$246,100			$246,100
14251	Pregnancy Prevention	$4,633,300		($85,600)	$4,547,700
14254	Childhood Lead Program	$1,000,000			$1,000,000
11385	School Health & Education Programs	$500,000			$500,000
14259	Special Projects (Nurse Family Partnership)	$200,000		($200,000)	$0
14259	Special Projects (Infant Mortality)	$900,000			$900,000
	Subtotal	**$8,037,500**	**$0**	**($285,600)**	**$7,751,900**
Local Health Administration and Grants					
12271	Local Health Services	$220,000			$220,000
	Subtotal	**$220,000**	**$0**	**$0**	**$220,000**
Infectious Disease Control					
16778	Immunization Local Agreements	$1,750,000			$1,750,000
16758	Immunization Program Mgt. and Field Support	$354,900			$354,900
	Subtotal	**$2,104,900**	**$0**	**$0**	**$2,104,900**
Office of Services to the Aging					
46512	Nutrition Services	$167,000			$167,000
	Subtotal	**$167,000**	**$0**	**$0**	**$167,000**
Medical Services					
33500	Maternity Outpatient Medical Services (MOMS)	$1,575,500			$1,575,500
33860	Poison Control - Special Medicaid Reimbursement	$300,000	($44,200)	($255,800)	$0
	Subtotal	**$1,875,500**	**($44,200)**	**($255,800)**	**$1,575,500**
	TOTAL PROJECTS:	**$25,085,600**	**($44,200)**	**($1,991,400)**	**$23,050,000**
33500	Hospital Services & Therapy	$15,884,000	**($3,497,200)**	$1,991,400	$14,378,200
	GRAND TOTAL:	**$40,969,600**	**($3,541,400)**	**$0**	**$37,428,200**

	FY 09		FY 10
1/09 Administration revenue est. for FY 09	$37,400,000	Est. for FY 10	$36,500,000
Interest Est.	$300,638	Interest Est.	$292,600
C/F from FY 08	$2,117,862	C/F from FY 09	$0
	$39,818,500		**$36,792,600**
HMF Spending		HMF Spending	
Assume PH Projects at ~~95%	$23,934,500	Assume PH Projects at ~~97%	$22,414,400
Hospital Services & Therapy	$15,884,000	Hospital Services & Therapy	$14,378,200
	$39,818,500		**$36,792,600**
BALANCE >>>	$0	BALANCE >>>	$0

OFFICE OF THE STATE BUDGET
February 12, 2009

Mount Pleasant Center Closure: FY 2010

Proposal:

The Executive proposes closure of Mount Pleasant Center for Persons with Developmental Disabilities early in FY 2010. Mentally ill and developmentally disabled residents at the Center will be transferred to appropriate and safe community-based settings or other state hospitals. This closure is the result of efforts by the state, working with local community mental health partners, to utilize community-based care.

Background:

Mount Pleasant Center is a state-operated intermediate care facility for persons with developmental disabilities. Historically the center functioned as a custodial home for people with mental retardation with varying lengths of residence, including permanent placements. Today, the Mount Pleasant Center provides short-term residential-based supports and services to people with a developmental disability until a viable community option is available. The current census is approximately 90, less than half of that in prior years. The closure reflects a reform of the state-operated facility system and recognizes needed efficiencies based on the significant decline in population at the Center.

Of the approximately 400 staff currently at the Mount Pleasant Center, the department will layoff between 80 to 100 employees yet this month. Since staff reductions will begin in FY 2009, estimated costs of nearly $8 million related to leave payouts, unemployment costs, and severance pay will be supported with one-time funding in FY 2009.

The FY 2010 budget recognizes $5.7 million in general fund savings related to the facility closure, of which, $2.1 million will cover estimated closed site costs and the remaining $3.6 million is directed to support other department spending.

In addition, rather than transferring funding for each placement directly to the Community Mental Health Services Programs (CMHSPs), the recommendation reflects the fact that these individuals will be eligible for Medicaid funding in the community. Federal revenues in addition to existing state funds provide a new specialized payment rate for this population that recognizes the significant services required for community care. Even with the proposed specialized rate, the average daily cost is still less than half of that spent in the hospital.

OFFICE OF THE STATE BUDGET
February 12, 2009

Department of Community Health
Medicaid Managed Care Organizations and Prepaid Inpatient Health Plans: FY 2010

Proposal

In order to remain compliant with federal law while protecting an integral financing source within the Medicaid program, the Executive proposed incorporating Medicaid managed care organizations (MCOs) and Prepaid Inpatient Health Plans (PIHPs) for Medicaid mental health services into a general use tax. Public Act 440 of 2008 was enacted in January of 2009. It ends the existing Medicaid MCO and PIHP provider tax and amends Public Act 94 of 1937, the Use Tax Act, by taxing in the same manner as tangible personal property, the use or consumption of medical services provided by the Medicaid MCOs and PIHPs. The law takes effect on April 1, 2009.

As a result of the law change, provider taxes previously received as state restricted revenues will cease, and providers will instead pay a use tax. Including these entities as part of the general use tax at 6 percent generates $334.8 million, or $18.1 million more than the provider tax program would have generated in fiscal year 2010.

By Constitution, a portion of the revenues collected under the use tax is earmarked for deposit into the School Aid Fund (SAF). In order to ensure that an amount equivalent to the new use tax revenues is deposited into the general fund, follow-up legislation will be needed to adjust the non-Constitutional earmark from the Michigan Business Tax to the SAF and instead deposit the revenues to the general fund.

The fiscal year 2010 Executive recommendation recognizes the change in the use tax as part of a base adjustment for the last half of fiscal year 2009 and for fiscal year 2010. State restricted funds associated with the provider tax program are eliminated in the recommendation and replaced with $294 million general fund. The recommendation assumes the full amount of the use tax collected from MCOs and PIHPs as general fund revenue.

Background

The Medicaid provider tax program finances enhanced payments to hospitals, nursing homes, MCOs and PIHPs. The Insurance Code (PA 218 of 1956), levies a 5.5 percent tax on MCOs and PIHPs that have a contract with the Medicaid program. This tax generates about $300 million in revenue and is scheduled to sunset March 31, 2009. The federal Deficit Reduction Act requires that, beginning October 1, 2009, Michigan's current provider tax arrangement with Medicaid MCOs and PIHPs be terminated unless the tax is modified to include all health plans.

OFFICE OF THE STATE BUDGET
February 12, 2009

Department of Corrections Mental Health Utilization of DHS Maxey Campus

---

Proposal

During 2009, the Department of Corrections will establish and operate a facility on the campus of the Department of Human Service's W. J. Maxey Training School in Whitmore Lake. The Fiscal Year 2010 Executive Recommendation includes a $16.7 million fund shift from the closure of the Scott Correctional Facility to operate the new Maxey unit. Currently, DHS occupies the 200-bed Woodland Center on the Maxey campus and has a population between 60-70 male, high security youth. Under the proposal, the Department of Corrections will move into the Woodland Unit while the Department of Human Services will move into the smaller, adjacent Green Oaks unit once renovations at Green Oaks are complete.

Background

The Scott Correctional Facility in Plymouth is slated for closure in May, 2009 and $12.0 million in partial year savings is included in the FY 2009 budget. In order to close Scott Correctional Facility, the department will consolidate female inmates into the Huron Valley Complex in Ypsilanti. To make room for the female prisoners, the special population of 400 male inmates currently incarcerated at Huron Valley need to be relocated. Except for a small number of general population inmates, the male inmates at Huron Valley are the population most seriously impacted by mental illness and require special accommodations that cannot be provided in general population beds in the department.

The department originally intended to transfer the male Huron Valley inmates to Mound Correctional Facility in Detroit; however, numerous obstacles have prevented the repurposing of housing units at Mound for this transfer.

The Woodland unit will provide a capacity of 276 special inpatient acute and residential treatment services beds for the Department of Corrections. DOC will also make a number of additional changes to their mental health programs at 5 other facilities to fully accommodate the movement of the Huron Valley population. Changes are anticipated at Gus Harrison, Macomb, Oaks, Bellamy Creek, and St. Louis Correctional Facilities.

The move to Maxey will provide a number of advantages for the Department of Corrections. Because of the location of the Maxey campus, the department will have a better chance to retain existing staff and, if necessary, recruit additional staff. The physical plant at Maxey is conducive to the treatment goals for mentally ill prisoners. Also, there are additional vacant buildings on the Maxey campus that could be used in the future if necessary and desirable.

The move to Green Oaks will provide cost savings to DHS because the department is presently occupying more physical plant space than their current juvenile population requires. For Fiscal Year 2010, $5.0 million Gross ($2.5 million GF/GP) will be saved in the Department of Human Services budget. There are additional advantages to the change including the future potential for DHS to share services with DOC in areas such as food service, medical, and maintenance. Reduced costs for juveniles would also result in lower costs to counties that commit juveniles to the facility.

OFFICE OF THE STATE BUDGET
February 12, 2009
Department of Corrections
Fiscal Year 2010 Reforms

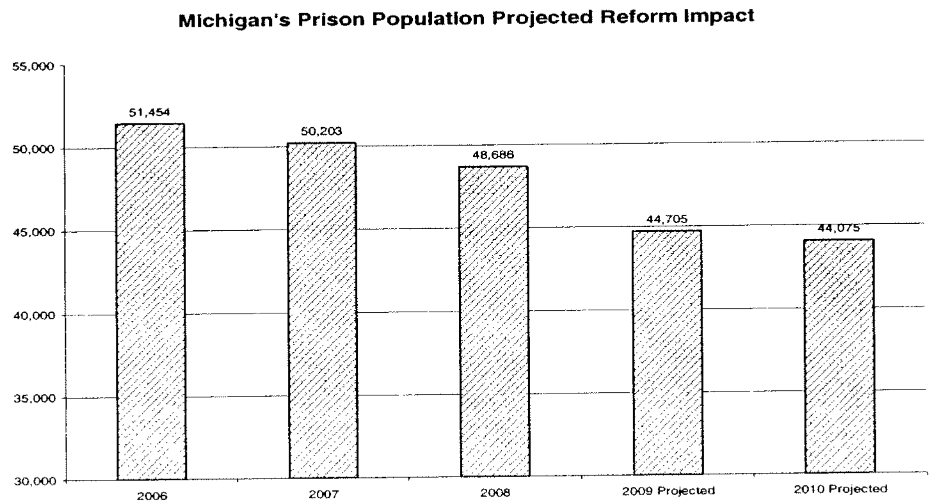
Proposal

Governor Granholm has implemented immediate administrative measures to reduce corrections costs and proposes a Fiscal Year 2010 Department of Corrections budget that is nearly 3 percent less than the current year budget. The Governor supports an immediate expansion of the size of the Parole Board. The larger board will facilitate expedited review of the 12,000 prisoners who have served their minimum sentences.

Over the next four months, the department will close Camp Branch, Deerfield Correctional Facility and the Robert Scott Correctional Facility. Savings of $33 million will be generated through these closures in Fiscal Year 2009. Additional full year savings of $24 million will be realized for these closures in Fiscal Year 2010.

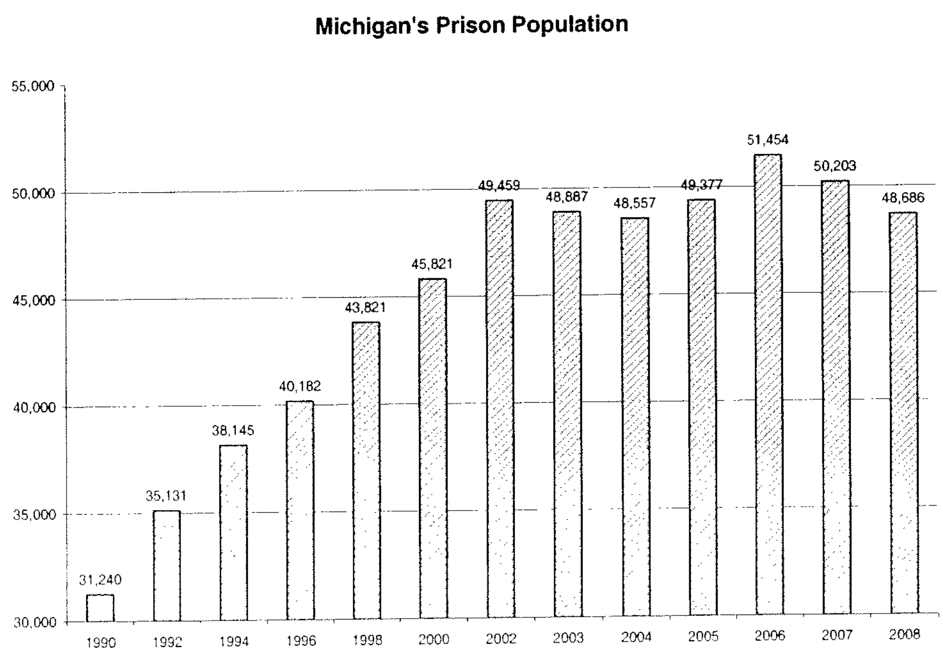
Investments in parole supervision resources and re-entry services will facilitate continued utilization of administrative measures to reduce the population of prisoners who have served their minimum sentences. The Executive Recommendation includes additional funding of $16.9 million to deploy and monitor an additional 2,800 Global Positioning System (GPS) tether units. An additional $7.3 million is provided to support more parole agents. $23.4 million in additional funding supports re-entry efforts including mental health and substance abuse services, transitional housing and employment services, and other specialized support programs.

Combined, these investments will provide the resources to support an increased parole population while reductions in the prisoner population lead to additional facility closures. To achieve additional closures by October 1, 2009, a Fiscal Year 2009 supplemental of $20 million for re-entry and parole resources is requested. The Executive Recommendation includes savings of $120 million for the closure of additional facilities with an anticipated impact of almost 4,000 prison beds. The location of the facilities to be closed has not yet been determined.



Background

In less than twenty years, the prison population in the State of Michigan grew by over 55 percent while the population of the state grew by less than 8 percent. In fiscal year 2008, Corrections spending accounted for over 20 percent of all state General Fund / General Purpose expenditures.



In each of the last six Executive Recommendations, Governor Granholm has proposed corrections reforms that would require the passage of legislation to generate savings through reasonable changes in the criminal justice system. Last year, the Administration worked collaboratively with the Legislature in a bipartisan workgroup facilitated by the Council of State Governments under their Justice Reinvestment Initiative. The initiative intensively analyzed portions of the state's criminal justice system and spending on corrections while providing policy options to address the findings of the workgroup. Although the workgroup recommendations provide some excellent suggestions for long-term savings in Corrections, no savings for Fiscal Year 2010 were identified.

OFFICE OF THE STATE BUDGET

Fiscal Year 2010
Wetlands Program

Proposal

In an effort to reform Michigan government and ensure efficiency and effectiveness, the Governor proposes as part of her fiscal year 2010 budget recommendation a return of the wetlands program to the federal Environmental Protection Agency (EPA) and amending the Natural Resources and Environmental Protection Act (NREPA) accordingly. As a result, a federal permit from the U.S. Army Corps of Engineers will be required for all work in wetlands, inland lakes and streams. The Michigan Inland Lakes and Streams Act would still require a state permit for any work involving a lake or stream. A savings to the general fund of $2.1 million will be realized.

Background

The Department of Environmental Quality is one of only two states that coordinate both state and federal requirements for the wetlands program. All other states rely solely on the EPA to administer the program. Approximately 1,800 permit applications ranging from construction of single-family residences to large commercial and industrial developments, highway construction, and mining are processed each year. Fee payers include private land owners, commercial and residential developers, businesses and industries. A portion of fee payers also include other state agencies as well as the U.S. forest service.

A current wetlands permit provides authorization that eliminates the need for a federal permit in most areas and is integrated with other state statutory programs including inland lakes, streams, Great Lakes shore lands, and floodplains. Funding for the program includes approximately $2.1 million general fund, $1.1 million from Michigan Department of Transportation, $400,000 restricted fees, and $400,000 federal grant money.

Repeated efforts to obtain support for an increase in fees sufficient to administer the wetlands program have met with no success. Given the lack of support for increased funding, the department can no longer operate even a modest program with the limited resources available. With the significant resources of the federal government and the opportunity its current environment presents, a return of the wetlands permitting program to the EPA will ensure the effectiveness and integrity of this effort can be maintained.

OFFICE OF THE STATE BUDGET
FEBRUARY 12, 2009

Higher Education
Cooperative State Agricultural Research and Extension Service

---

Proposal: In order to retain the state's ability to conduct and disseminate research critical to the state agricultural industry during these economically challenging times, the Agricultural Experiment Station and the Cooperative Extension Service, which are administered by Michigan State University (MSU), are recommended for consolidation into the new Cooperative State Agricultural Research and Extension Service. The recommended funding is $32 million, which is about one-half of current year support.

Project GREEEN is allocated a minimum of $8 million, an increase of $2.4 million, to focus on critical regulatory, food safety, economic, and environmental problems faced by Michigan's plant-based agriculture, bioeconomy, forestry, and processing industries.

The Animal Agricultural Initiative is allocated a minimum of $8 million, an increase of $2 million more than has been typically earmarked, to focus on critical regulatory, food safety, economic, and environmental problems faced by Michigan's animal-based agriculture, bioeconomy, and processing industries.

The Department of Agriculture and MSU in consultation with agricultural commodity groups will select the projects funded by the Cooperative State Agricultural Research and Extension Service.

Background: Combining the Agricultural Experiment Station and the Cooperative Extension Service into a single entity is consistent with federal administration of these programs which combines these activities under the Cooperative State Research, Education, and Extension Service (CSREES). State funding is also available to match federal funding currently being received.

OFFICE OF THE STATE BUDGET
FEBRUARY 12, 2009

Higher Education
Student Financial Aid Reform

Proposal: The Governor proposes consolidating most state student financial aid funding under two basic programs – the merit-based Michigan Promise Grants and the new need-based Michigan College Access Grants. This restructuring of most state financial aid programs will simplify how students obtain financial assistance for college and reduce administrative costs. Overall, financial aid for students is increased a net of $41.5 million.

Michigan College Access Grants
Fiscal year 2010 funding of $89.8 million is recommended for the new Michigan College Access Grants. Six current student financial aid programs are consolidated into one streamlined, needs-based program for undergraduate students enrolled at any Michigan public or independent college or university.

Need is determined by using the federal methodology for calculating the Expected Family Contribution (EFC) toward college costs obtained from each student's annual Free Application for Federal Student Aid (FAFSA) submission. The federal methodology takes into account various factors such as the income of students and parents, family assets, and the number of students in college. For academic year 2009-2010, the eligibility for a College Access Grant is established at an EFC of $7,750 or less. Based on recent FAFSA submissions, the majority of students from families with an adjusted gross income of up to $80,000 would qualify.

The final award amount will be set by the Michigan Higher Education Assistance Authority based on the number of eligible students, but it is projected that the award for a full-time student will be approximately $1,000 with at least 89,000 students receiving an award.

Michigan Promise Grants
Merit-based Michigan Promise Grants are retained at a total of $140 million, an increase of $59.5 million. Students receiving a qualifying score on the Michigan merit exam receive $1,000 for each of their first and second years of college enrollment and an additional $2,000 after completing two years of college. Students not scoring highly on the exam but successful in college receive $4,000 after completing two years in college.

Remaining student financial aid programs include:

Tuition Incentive Program (TIP)
TIP encourages low-income Medicaid eligible students to finish high-school by providing financial assistance to attend college. TIP funding is increased by $6.0 million to $31.2 million.

Children of Veterans Tuition Grants
This program assists children of deceased and disabled veterans and is funded at $1 million.

OFFICE OF THE STATE BUDGET
February 12, 2009

Reform State Government by Eliminating or Combining Existing Departments

---

Proposal

As part of the streamlining of state government, the Department of History, Arts, and Libraries is recommended for elimination. Core functions are transferred to other existing State departments. The elimination of the Department of History, Arts, and Libraries results in savings of approximately $2 million general fund.

Background

	Gross	GF/GP
• Transferred to the Michigan Strategic Fund		
· Michigan Council for Arts & Cultural Affairs	$2,285,000	$1,435,000
· Cultural Economic Development	$320,500	$320,500
· Building occupancy charges	$17,800	$17,800
· Information technology services and projects	$33,800	$33,800
Total transferred to the Michigan Strategic Fund	$2,657,100	1,807,100
• Transferred to the Department of Natural Resources		
· Mackinac Island State Park Commission	$3,377,200	$1,609,700
· Michigan historical museum and related historical historical services	$4,298,500	$2,971,400
· Lighthouse preservation program	$251,000	0
· Thunder Bay National Marine Sanctuary and Underwater Preserve	$201,700	$201,700
· Building occupancy charges	$929,400	$929,400
· Information technology services and projects	$385,300	$336,600
Total transferred to the Department of Natural Resources	$9,443,100	$6,048,800
• Transferred to the Department of Information Technology		
· Demographics and census data	$216,500	$216,500
· Information and technology services and projects	$7,500	$7,500
Total transferred to the Department of Information Technology	$224,000	$224,000
• Transferred to the Department of Management and Budget		
· State Records Center and the state archives	$1,910,300	$1,536,700
· Building occupancy charges and rent	$1,174,700	$1,174,700
· Information and technology services and projects	$105,100	$105,100
Total transferred to the Department of Management and Budget	$3,190,100	$2,816,500

• Transferred to the Department of Education		
· Library of Michigan and state aid to libraries	$21,980,600	$16,423,200
· Building occupancy charges and rent	$1,557,600	$1,557,600
· Information and technology services and projects	$626,600	$626,600
Total transferred to the Department of Education	$24,164,800	$18,607,400
• Transferred to the Department of Energy, Labor and Economic Growth—Michigan State Housing Development Authority		
· State Historic Preservation Office and archaeology programs	$1,962,400	$1,012,400
· Building occupancy charges	$71,400	$71,400
· Information technology services and projects	$103,700	$103,700
Total transferred to the Department of Energy, Labor and Economic Growth—Michigan State Housing Development Authority	$2,137,500	$1,187,500
TOTALS	$41,816,600	$30,691,300

OFFICE OF THE STATE BUDGET
February 12, 2009

Changes in the State Juvenile Justice System

Proposal

The 2010 Executive Budget Recommendation includes $10 million gross, $5 million general fund in savings as result of closing and restructuring state owned juvenile justice facilities in recognition of declining need and administrative efficiencies.

Recommendation Highlights

1. Adrian Training School - The budget recommendation recognizes the closure of the Adrian Training School in fiscal year 2009. Executive Order 2008-21 included $2 million gross, $1 million general fund in savings in 2009; the 2010 recommendation annualizes this by including $5 million gross, $2.5 million general fund in additional savings.

    - Adrian closed in January 2009; the 31 female youth served by the facility were transferred to private facilities, community placements and other state facilities.

    - Nearly all employees were placed in other state positions.

    - The closure will result in lower costs for counties committing youth to state facilities as overall system costs will be reduced.

2. Maxey Training School - The recommendation also includes $5 million gross, $2.5 million in savings generated from transferring youth from the Woodland Center to the Green Oak Center campus at Maxey Training School.

    - The Department of Human Services (DHS) will enter into an agreement with the Department of Corrections (DOC) to vacate the 200 bed Woodland Center. DOC will assume operation of the center to house and treat corrections inmates.

    - DOC will fund renovation of the unoccupied Green Oak Center for the 60 to 70 DHS supervised youth that will be transferred from Woodland Center. These renovations will include security and physical plant upgrades to meet safety, treatment, and living requirements for both the youth and DHS staff. DOC has an existing appropriation for renovation; no additional general fund will be needed to upgrade Green Oak.

- DHS will be able to operate programming for the 60 to 70 youth with fewer staff, in a smaller facility, reducing employee and physical plant costs. These lower costs will also reduce cost sharing for counties committing youth to the facility.

- All states have some public treatment capacity for high need juvenile justice youth; the Green Oak Center will maintain this capacity.

- The youth impacted will have minimal disruption in treatment plans as the move will maintain both their treatment groups and supervisory staff.

- The target date for the transfer is during the last quarter of fiscal year 2009 or first quarter of fiscal year 2010.

Background

State operated juvenile justice facilities have seen dramatic declines in population over the past several years, as more youth requiring these services have been referred to privately-owned residential facilities and community based programs. From 2004 to 2008, the average census at state owned facilities fell 62.5%, from 343 to 211. These population declines have increased county costs for youth committed to state facilities, creating an incentive for counties to divert their youth to other placements. In response to these trends, DHS has been assessing state owned facilities for operational and financial viability, resulting in closure and consolidation to reduce excess capacity in the system.

OFFICE OF THE STATE BUDGET
February 12, 2009

Child Welfare Improvements

Proposal

As part of Governor Granholm's continued commitment to reform Michigan's child welfare system, the 2010 Executive Budget Recommendation includes $113.4 million gross, $82.2 million general fund in additional funding to better meet the needs of the nearly 18,000 children currently under state supervision. This funding builds on an investment of over $55 million during the past two years to provide supervision and care for children in the child welfare system, while working to support families, or when necessary, find other permanent placements.

Recommendation Highlights

The budget recommendation for the child welfare improvement plan includes new funding in five key areas:

- Additional staffing in child protective services, foster care, licensing and monitoring, and permanency planning to meet caseload ratio requirements *($69 million, 850 FTEs)*;
- Increased funding for private foster care and adoption child placing agencies for caseload management and enhanced permanency planning efforts *($29.6 million)*;
- Reorganization of the department's central administration to create a Children's Services Administration and redefine local field office structures in five urban counties for greater oversight of child welfare programs *($6 million)*;
- Funding for assessment and monitoring costs *($5.6 million)*;
- Staffing and information technology to develop new data, analysis, and accountability resources *($ 3.2 million)*.

Background

In July 2008, the state reached an agreement with the Children's Rights Initiative, settling a federal lawsuit over Michigan's child welfare system. The agreement included a variety of provisions to reduce caseload to worker ratios for more effective case management; to increase permanency planning efforts for children in the system longer than a year; to develop an enhanced data management and quality assurance process for greater accountability; and to reorganize central administrative structures to focus exclusively on the child welfare system. The terms also included target outcomes and aggressive timelines to be met over the next four years. The improvements and funding recommended by the Governor will help Michigan meet the terms of the settlement.

OFFICE OF THE STATE BUDGET

February 12, 2009

State SSI Supplementation - Reduction

Proposal

The fiscal year 2010 Executive Budget eliminates the $14 per month state Supplemental Social Security Income (SSI) supplement payment to those living independently or in the household of another. SSI recipients living in adult foster care homes and homes for the aged will NOT be impacted and will continue to receive a state SSI supplement of $130 per month. This policy change is projected to result in a general fund savings of $30.0 million. The reduction will be implemented January 1, 2010.

Background

SSI is a cash benefit to needy persons who are aged (at least 65), blind or disabled. This means tested federal program is administered by the Social Security Administrations (SSA). 34 states supplement the federal benefit with state funds. In Michigan, SSI benefits include a basic federal benefit and an additional benefit paid with state funds. This state SSI supplement varies by living arrangement. The basic federal SSI payment is $674 per individual and $1,011 per couple per month (this compares to a payment amount of $264 per month for an individual on Michigan's state funded State Disability Assistance program). These payments were increased from $636 on January 1, 2009, by a 5.8% cost of living. DHS supplements these federal payments with $14 per month for those SSI recipients that are living independently or in the household of another. For SSI recipients living in adult foster care homes and home for the aged, DHS pays a supplement of $130 per month.

Rationale for a reduction to the state SSI supplement is based on the following:

1. The federal stimulus package proposes to give SSI recipients an additional monthly SSI payment in fiscal year 2009.
2. A federal cost of living increase estimated at $20 in the federal SSI payment in January 2010 will help offset this reduction.
3. The federal stimulus package proposes an increase in the food assistance program that includes SSI recipients. Some of the reduction in state SSI supplement benefits will be made up with the increased food assistance benefits.
4. Michigan is implementing an SSI/Food Assistance Program matching system and will open cases for all SSI recipients in independent living that are not currently receiving food assistance benefits. Michigan is the third state to implement this arrangement. Receipt of food assistance benefits increases the overall food purchasing power of SSI recipients and will help mitigate the impact of this proposal.

The state SSI supplement payments are required by the federal government. The potential penalty for reducing state SSI supplement payments is the loss of Title XIX federal funds. We anticipate federal support for changing this requirement or federal approval of a waiver to allow a reduction in the state SSI supplement.

OFFICE OF THE STATE BUDGET
February 12, 2009

TANF Contingency Funds

Proposal

Due to the state's economic downturn, Michigan was eligible for and received $155 million in TANF contingency funds in fiscal year 2008. These funds helped support and maintain basic safety-net programs.

Based on a continuing high unemployment rate and high food stamp caseloads, Michigan is eligible for and anticipates receiving $155 million in TANF contingency funds in fiscal year 2009. These funds will be spent in fiscal year 2009 resulting in a carry forward of regular TANF funds into fiscal year 2010. The fiscal year 2010 TANF carry forward will help address critical funding needs in the Department of Human Services including Family Independence Program (FIP) caseload increases and child welfare improvements.

Background

Federal Temporary Assistance for Needy Families (TANF) Contingency Funds are available to needy states to augment their regular TANF Block Grant. TANF contingency funds are authorized under the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA), federal welfare reform legislation passed in 1996. Eligibility for TANF contingency funds is based on a state's high unemployment rate and significant increases in the food stamp caseload. The maximum TANF contingency funds that may be earned are 20% of a state's TANF Block Grant ($155 million based on Michigan's TANF Block Grant of $775 million). To obtain these funds, a state must document a certain amount of state spending on TANF eligible programs, known as TANF Maintenance of Effort (MOE).

DHS - REVISED TANF Contingency Fund Spending Plan for FY 2009
State Budget Office
February 12, 2009

#	Spending Plan	Revenues FY 2009 Plan 12-10-08	Expenditures FY 2009 Plan 12-10-08	Required Budget Adjustments per 1-15-09	Revenues FY 2009 Plan 2-2-09 Per Gov Decisions	Expenditures FY 2009 Plan 2-2-09 Per Gov Decisions
1	TANF Carryforward	$102,346,200		Actual FY 09 Carryforward (to be spent on assistance)	$151,369,800	
2				FY 09 TANF Contingency Revenue (assumed)	$155,000,000	
3				PCG fee for FY 09		($8,525,000)
4	Child Welfare Improvements - (Gross $23.1 M)		($20,600,000)	SBO will submit transfer requests to secure the necessary general fund authorization for these improvements.		($20,600,000)
5	Children's Rights Legal Expenses - (Gross $6.0 M)		($4,900,000)	Included in 2009 DHS budget - PA 248 of 2008		($4,900,000)
6	Additional Employment & Training Activities - JETplus - REVISED		($41,000,000)	Funded JET plus per Gov Decision		($21,000,000)
7	Additional $2 per person per month FIP grant increase		($4,989,600)	Included in 2009 DHS budget - PA 248 of 2008 - Reduction		$0
8	Day care rate increase		($10,000,000)	Included in 2009 DHS budget - PA 248 of 2008 - Reduction		$0
9	Funding for Strong Families/Safe Children		($2,000,000)	Included in 2009 DHS budget - PA 248 of 2008		($2,000,000)
10	$50 Work Incentive for FIP clients - Sec 693 restrictive		($1,778,300)	Included in 2009 DHS budget - PA 248 of 2008		($1,778,300)
11	Offset GF spending in FIP with TANF		($8,078,300)	Included in 2009 DHS budget - PA 248 of 2008		($8,078,300)
12	Offset GF spending in local office staff salaries and wages and fringe benefits with TANF		($9,000,000)	General fund reduction reflected in E.O. 2008-21; federal authority requested through contingency fund transfer for TANF.		($9,000,000)
13	FIP caseload for FY 09 - cases estimated to increase from 65,925 to 72,000; @ $423 per case or total $31.9 M. Fund $20.0 M of the $31.9 M with TANF - savings from JET plus #6.					($20,000,000)
14	FIP caseload - Balance of funding for FY 09 - ($31.9 M - 20.0 M = $11.9 M) to be funded with Federal Stimulus dollars (see FY 09 Supplemental).					$0
15	Spend Contingency TANF in lieu of Reg TANF				$59,118,400	($59,118,400)
	Total revenue and expenditure				**$365,488,200**	**($155,000,000)**
	FY 2010 TANF CF (rev - exp from above)*				$210,488,200	
16	FIP - swap TANF for GF					($100,000,000)
17	Use for Child Welfare Improvements					($32,000,000)
18	Continue item # 11 in FY 10 - Offset GF spending in FIP with TANF					($8,078,300)
19	Continue item #12 in FY 10 - Offset GF spending in FIP with TANF					($9,000,000)
20	FIP - use to fund existing caseload - (savings from #7 & 8 above)					($14,477,000)
21	FIP - Fund additional caseload in FY 10 to 75,000.					($46,932,900)
	Balance		$0			$0

Notes:

* Caution: If TANF Contingency funds are not realized at $155.0 M assumed in #2 FY 2010 will be adversely impacted.

Regular TANF Carryforward must be spent on TANF eligible expenditures.

Michigan Business One Stop

Your source for doing business

A little history….

Michigan is a recognized leader for tapping technology to make government better and more accessible. Today, Michigan is taking technology and innovation a step further by housing *all* aspects of doing business in Michigan on one easy-to-use Web site. This one-stop shop, promises to transform Michigan's government-business transactions by:

- Creating one place for businesses to interact with government throughout the lifecycle of a business: Starting a Business….Operating a Business…Changing a Business
- Streamlining business transactions
- Providing 24 by 7 customer assistance

What's in it for businesses? Easy, fast, simple!

- One Web site, one phone line, one place to work with the state
- Licenses, permits and registrations just a "click" away
- "Enter it once" capability – information shared across agencies
- Status of transactions at your fingertips
- Renewal reminders – know what's due when
- E-Payment – electronic and easy
- Paperless – save paper, save postage and save the Earth!

Making it happen

Never before has a state government brought so many partners together for a shared purpose.

Sponsor:	Governor's Office
Co-Owners:	DELEG, MEDC
Agencies:	MEDC, DELEG, MDIT, DHS, MDA, MDOT, SOS, Treasury, MCGB, Lottery, DEQ
Businesses:	Businesses, business associations and chambers, foundations
Legislature:	Legislative leadership support

Time Line

Early '09:	Public Web site "Starting a Business" and "Operating a Business" function, some automated permits and licenses, and Customer Assistance Center
Late Summer '09:	Add "Changing a Business" function, plus more automated permits and licenses
2009 - 2010:	Continued addition of more automated permits and licenses

Michigan Business One Stop
FY 2010 Executive Budget Recommendation

Agency	**Gross**	**GF/GP**
Agriculture	$ 74,900	$ 0
Community Health	$ 9,300	$ 0
Environmental Quality	$ 68,000	$ 0
Gaming	$ 1,100	$ 0
Human Services	$ 17,000	$ 0
Energy, Labor & Economic Growth	$ 618,900	$ 0
Lottery	$ 8,100	$ 0
State	$ 54,000	$ 0
Transportation	$ 97,300	$ 0
Treasury	$ 14,600	$ 0
Total Charges	**$ 963,200**	**$ 0**

OFFICE OF THE STATE BUDGET

Fiscal Year 2010
Microsoft Update

Proposal

The fiscal year 2010 Executive Recommendation contains $6.9 million in gross funding, $2.8 million general fund/general purpose, to support the purchase of a statewide desktop software update to Microsoft Office Professional 2007. With the software purchase and license applications, this will standardize the software used statewide and reduce security risks while garnering efficiencies. This update will allow the Michigan Department of Information Technology to remotely manage desktop services, set security policies, and to assess the option of consolidating e-mail systems by migrating users to the Microsoft Exchange e-mail solution. The table on the reverse side of this document reflects the fiscal year 2010 impact by agency.

Background

State agency desktop computers are currently operating on Microsoft Office 2002 software, which was purchased in 1999. This software allows state employees to complete daily work in Microsoft Office utilizing common software packages including, Excel, Word, Access, and Powerpoint. As improvements in technology and software occur almost daily, client application licenses need to be updated periodically to allow each computer to perform basic office functions such as printing, connecting to networks, file saving, as well as allow individuals to work from a remote location.

Beginning in 2010, the Microsoft Office 2002 version of software will be out of warranty, meaning Microsoft will no longer support the software by providing updates. Without the software updates the opportunity for virus and security attacks into the state's computer network and systems is greatly increased and risks to operability grow potentially compromising service delivery and productivity.

Agency		**Gross**		**GF/GP**
Agriculture	$	86,200	$	12,700
Attorney General	$	80,800	$	80,800
Civil Rights	$	22,600	$	22,200
Civil Service Commission	$	85,800	$	18,300
Community Health	$	629,100	$	144,000
Corrections	$	1,457,600	$	1,404,100
Education	$	69,300	$	16,500
Environmental Quality	$	218,700	$	15,600
Gaming	$	17,800	$	-
HAL	$	37,700	$	36,300
Human Services	$	1,595,800	$	561,500
DLEG	$	655,600	$	-
DMB	$	193,600	$	97,600
DMVA	$	47,800	$	16,400
Natural Resources	$	272,500	$	23,200
State	$	266,700	$	47,200
State Police	$	439,400	$	291,600
Transportation	$	509,300	$	-
Treasury	$	213,700	$	46,300
Total Cost	**$**	**6,900,000**	**$**	**2,834,300**

OFFICE OF THE STATE BUDGET
ISSUE PAPER
February 12, 2009

Closure of the Michigan State Fair

Proposal

The Governor's Executive Budget ends funding for the Michigan State Fair in fiscal year 2010. The 2009 Michigan State Fair will be the final year of operation with state support. The Michigan State Fairgrounds will ideally be reutilized in a way that will spur localized economic development in Metro Detroit and Southeast Michigan.

Background

The Michigan State Fair ("fair") operates in the greater Detroit area as the official state fair of Michigan. It is operated by the governor-appointed State Fair Manager and a small full time staff, and is overseen by the Michigan Exposition and Fairgrounds Authority. The fair operates in the late summer on the Michigan State Fairgrounds at 8 Mile Road and Woodward Avenue in Detroit. The fair has been at its current location since 1905, during which time the local area has encountered economic challenges.

In recent years, operating costs of the fair have routinely exceeded revenues brought in at the gate and by sponsorships. Because of these cost overruns, the Department of Management and Budget (DMB) has covered these debts with lapses in other areas or has requested supplemental appropriations. Often these debts are paid with general fund dollars, even though no general fund money was originally appropriated for the fair. In addition, payments to vendors have frequently been late, hurting vendors and damaging the state's credibility.

The fair is essentially funded by only gate receipts and sponsorship dollars. In each of the last seven years, the fair has been unable to pay for its costs and required action to avoid closing with a deficit, including needing a $500,000 legislative transfer to cover the 2008 fair costs. History shows that bad economic times exacerbate these deficits because of fewer admissions, indicating that the 2009 fair will also likely overspend its decreased revenues. Additionally, automotive companies have been among the biggest private sponsors of the fair, and may not be in a position to contribute the same levels of financial support in the coming year as in previous years.

OFFICE OF THE STATE BUDGET
FEBRUARY 12, 2009

Fiscal Year 2010
Proposed Revenue Enhancements

Proposal

Eliminate or modify tax subsidies, adjust tax rates, and implement other measures to generate ongoing revenue in support of higher spending priorities. Combined fiscal year 2010 benefit to the state of Michigan is $231.6 million: $166.4 million general fund; and $65.2 million School Aid Fund.

Background

The fiscal year 2010 budget process examines direct spending as well as spending for tax subsidies, weighing budget expenditures against tax expenditures within available fiscal resources. In addition, changes in current law and tax enforcement practices will enhance general fund and School Aid Fund revenues.

The Governor's fiscal year 2010 Executive Budget Recommendation includes the following revenue proposals that are intended to be ongoing sources of revenue to address the state's structural budget problem.

Proposed Revenue Enhancements ($174.9 million)

- **Commercial Rental Property**

A 2002 Michigan Supreme Court decision *(WPW Acquisition v City of Troy)* barred complete implementation of 1994 Proposal A legislation regarding property taxation on commercial rental property. That legislation provided that in calculating the cap for determining the taxable value of commercial rental property, both increases and decreases in occupancy would be treated differently from market value changes affecting other types of property. The Michigan Supreme Court ruled that an increase in value due to an increase in a commercial rental property's occupancy could not be used to increase the property's taxable value beyond the constitutional assessment cap established by Proposal A. As a result of this court decision, commercial rental property taxes are based on occupancy decreases and are not adjusted upward if the property's occupancy rate increases. Legislation is needed to remove commercial rental property from the General Property Tax Act and create a new specific tax that allows this property to be treated the way Proposal A intended. *Annual impact, beginning for fiscal year 2010, $10.0 million in School Aid Fund revenue.*

- **"Cybershame" – Publicize Names of Major Delinquent Taxpayers**

The "Cybershame" program would allow the names of major delinquent taxpayers to be published. At least 18 states have found that publicizing the names of major delinquent taxpayers encourages taxpayers to pay their taxes on time to avoid bad publicity. The proposal will post on the internet the names of taxpayers that are delinquent on over $100,000 in tax liability, but only after the Department of Treasury notifies the taxpayer that their names may be publicized and gives the taxpayer the opportunity to arrange for payment. Legislation is needed to implement the "Cybershame" program. *Annual impact, beginning for fiscal year 2010, $5.0 million in general fund revenue.*

- **International and Certain Interstate Communications**

Certain interstate telecommunication services are exempt from the use tax, including toll-free numbers, WATS services, interstate private networks, and international calls. It is not consistent to tax calls made within the state, or between states, but not to tax calls made to other countries. A call to Sault Ste. Marie, Michigan is taxed; a call to Sault Ste. Marie, Ontario is not taxed. Legislation is needed to require the use tax to be paid on telecommunication services that are placed or received in Michigan and billed to a Michigan service address or phone number. *Annual impact, beginning for fiscal year 2010, $14.5 million: $9.7 million in general fund revenue; $4.8 million in School Aid Fund revenue.*

- **Interstate Trucks and Trailers**

The purchase or use of trucks, trailers, and parts is normally subject to the sales or use tax. However, the tax does not apply if as little as 10 percent of miles traveled occur outside of Michigan. Subjecting to taxation that portion of the usage that occurs in Michigan would mean, for example, that if 45% or 50% of miles traveled in Michigan, then 45% or 50% of the sales or use tax would be owed. Legislation is needed to subject that portion of the usage that occurs in Michigan to the sales or use tax. *Annual impact, beginning for fiscal year 2010, $21.0 million: $14.0 million in general fund revenue; $7.0 million in School Aid Fund revenue.*

- **Oil and Gas Income Double Deduction**

Under current law, oil and gas activities in Michigan are taxed under the severance tax and, in return, the income from these activities is not subject to Michigan income tax. The Michigan income tax uses the federal adjusted gross income (AGI) as the starting point. AGI includes the net amount of business income after all business expenses have been subtracted. Since the income from oil and gas production is not subject to Michigan income tax, the net amount of oil and gas income should be subtracted from the AGI. However, Michigan courts have allowed oil and gas producers to take a different deduction from income. Certain indirect costs, such as depreciation expenses, are allowed as a separate deduction from AGI, creating a double tax advantage for this group of taxpayers. Legislation is needed to eliminate the double deduction. *Annual impact, beginning for fiscal year 2010, $4.1 million: $3.1 million in general fund revenue; $1.0 million in School Aid Fund revenue.*

- **Other Tobacco Products – Double the Tax Rate**

The current tax rate on other tobacco products (OTP) is 32 percent of the wholesale price – which is significantly lower than the current tax rate on cigarettes. The cigarette tax of $2 per pack averages between 80 and 150 percent of the wholesale price on a percentage basis, depending on whether the cigarettes are a premium or discount brand. This significant tax differential has created an incentive for consumers to substitute tobacco products taxed as OTP for cigarettes. In addition, manufacturers have created new products that share many of the characteristics of cigarettes (white wrapping paper, filters, and packs of 20) but are sold as "little cigars." These products have a considerable price advantage due to the different tax rates assessed on OTP compared to cigarettes, and it appears these little cigars have experienced increased sales while cigarette sales have declined. Legislation is needed to double the tax rate on OTP. *Annual impact, beginning for fiscal year 2010, $45.0 million in general fund revenue.*

- **Personal Exemption – Suspend Indexing**

The personal income tax exemption was increased from $2,100 to $2,400 in 1995 and 1996 and to $2,500 in 1997. In 1998, the personal exemption was increased by $200 plus it began to be indexed to inflation which resulted in another $100 increase. As a result, the personal exemption was increased to $2,800 for tax year 1998 and continues to be annually adjusted to inflation. Legislation is needed to suspend the inflation index for tax years 2009 and 2010. *Annual impact in fiscal year 2010, $57.0 million; $46.4 million in general fund revenue; $10.6 million in School Aid Fund revenue.* (Fiscal year 2011 impact: $65.0 million: $52.9 million in general fund revenue; $12.1 million in School Aid Fund revenue.)

- **Sales Tax Bad Debt Deduction**

Under current law, a retailer, and after September 30, 2009, a lender, is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible. Legislation is needed to adjust the bad debt deduction to 80% of current value. *Annual impact,* *beginning for fiscal year 2010, $12 million: $3.2 million in general fund revenue; $8.8 million in School Aid Fund revenue.*

- **Sales Tax Collection Allowance**

Under current law, a seller is allowed to retain 0.75% of the sales and use tax (not to exceed $20,000) if proceeds are remitted by the 12th of the month, or retain 0.50% of the tax (not to exceed $15,000) if proceeds are remitted from the 13th through the 20th of the month. Legislation is needed to adjust the sales tax collection allowance to 80% of current value. *Annual impact, beginning for fiscal year 2010, $3.1 million: $0.8 million in general fund revenue; $2.3 million in School Aid Fund revenue.*

- **Tobacco Tax Collection Allowance**

Under current law, persons licensed to sell tobacco products are allowed to exempt 1.5% of the cigarette tax due, and 1% of the tax due on other tobacco products, to cover their expenses in administering the tax. Legislation is needed to adjust the tobacco tax collection allowance to 80% of current value. *Annual impact, beginning in fiscal year 2010, $3.2 million: $1.9 million in general fund revenue; $1.3 million in School Aid Fund revenue.*

Proposed Tax Enforcement ($17.6 million)

- **Compliance Enforcement – Delinquent Business Tax Accounts**

The Department of Treasury pursues delinquent tax debts from the business community through its field collection program. More complex business tax accounts involve higher value delinquencies but also require extensive investigative efforts to pursue these accounts. A recent pilot project identified approximately 5% of active businesses are not registered for sales and withholding taxes and are not in compliance with filing returns. Investing $895,000 for 10 FTE positions is needed to expand compliance enforcement, resulting in increased tax obligation revenue that would otherwise go uncollected. *Annual impact, beginning in fiscal year 2010, $11.0 million: $7.8 million in general fund revenue; $3.2 million in School Aid Fund revenue.*

- **Income Tax Automation**

The Department of Treasury manually reviews and corrects approximately 400,000 errors, or 8% of the 5 million income tax returns filed, through its tax processing bureau. This proposal would re-direct 12,000 of the errors to an auto correction system, allowing staff to manually review and correct additional errors. Investing

$150,000 for 2 FTE positions is needed to expand reviews of tax returns, resulting in increased tax revenue. *Annual impact, beginning for fiscal year 2010, $4.1 million: $3.7 million in general fund revenue; $0.4 million in School Aid Fund revenue.*

- **Use Tax Audit Letters to Businesses**

Modeled after a state of California initiative, the Department of Treasury would remind businesses of their potential tax liability under Michigan's Use Tax Act. Letters would be mailed to businesses, asking them to review their records on out-of-state purchases for the past 3 years to determine if additional taxes are owed. *Annual impact, beginning in fiscal year 2010, $2.5 million: $1.7 million in general fund revenue; $0.8 million in School Aid Fund revenue.*

Other Proposed Revenue Enhancements

- **Liquor Revenue Increases (\$24.1 million)**

Doubling the Retail License Fees

Most retail liquor license fees have remained unchanged for more than 30 years, while the costs of licensing and enforcement activities has increased more than 270% since October 1976. In addition, the license itself is a marketable commodity with a high resale value when bought and sold in the private market. Legislation is needed to double the fees paid by retail liquor licensees. Additional revenue will support Michigan Liquor Control Commission regulatory responsibilities with unexpended balances deposited to the state general fund. *Annual impact, beginning for fiscal year 2010, $10.4 million in general fund revenue.*

Extended Hour Permits

Under current law, liquor licensees are prohibited from selling liquor between the hours of 2:00 a.m. and 7:00 a.m. Legislation is needed to create a new permit to allow liquor sales to be extended by 2 hours – from 2:00 a.m. to 4:00 a.m. Additional revenue will support Michigan Liquor Control Commission regulatory responsibilities with unexpended balances deposited to the state general fund. *Annual impact, beginning for fiscal year 2010, $4.6 million in general fund revenue.*

Extended Sunday Hours

Under current law, liquor retail licensees are prohibited from selling liquor between the hours of 2:00 a.m. and 12:00 a.m. midnight on Sundays, unless issued a permit that allows sales to occur between the hours of 12:00 p.m. noon and 12:00 a.m. midnight. Legislation is needed to create a new permit to allow liquor sales to occur prior to 12:00 p.m. noon on Sunday. Additional revenue will support Michigan Liquor Control Commission regulatory responsibilities with unexpended balances deposited to the state general fund. *Annual impact, beginning for fiscal year 2010, $9.1 million in general fund revenue.*

- **Lottery Revenue Increase (\$15.0 million)**

Under a recently awarded gaming system contract, retailers will be provided additional lottery terminals to sell on-line lottery tickets as well as instant tickets. For fiscal year 2010, the Governor proposes to tie lottery promotion and advertising to 1 percent of previous sales revenue, increasing annual spending by approximately \$5 million. Investing \$835,000 for 10 FTE positions is needed to manage the inventory of additional terminals. More lottery terminals in combinations with enhanced advertising and promotion spending is expected to increase lottery sales and related revenue. *Partial year impact, beginning for fiscal year 2010, \$15.0 million in School Aid Fund revenue.* (Fiscal year 2011 impact: \$30.8 million.)

Fiscal Year 2010 Executive Budget
Proposed Revenue Enhancements
($ in thousands)

	FY 2010		
Revenue Enhancements	SAF	GF/GP	Total
1. Commercial Rental Property	$ 10,000.0	$ -	$ 10,000.0
2. Cybershame-Publicize Major Delinquent Taxpayers	$ -	$ 5,000.0	$ 5,000.0
3. International and Certain Interstate Communications	$ 4,800.0	$ 9,700.0	$ 14,500.0
4. Interstate Trucks and Trailers	$ 7,000.0	$ 14,000.0	$ 21,000.0
5. Oil and Gas Income Double Deduction	$ 1,000.0	$ 3,100.0	$ 4,100.0
6. Other Tobacco Products-Double the Tax Rate	$ -	$ 45,000.0	$ 45,000.0
7. Personal Exemption-Suspend Indexing	$ 10,600.0	$ 46,400.0	$ 57,000.0
8. Sales Tax Bad Debt Deduction	$ 8,800.0	$ 3,200.0	$ 12,000.0
9. Sales Tax Collection Allowance	$ 2,300.0	$ 800.0	$ 3,100.0
10. Tobacco Tax Collection Allowance	$ 1,300.0	$ 1,900.0	$ 3,200.0
Subtotal Revenue Enhancements	**$ 45,800.0**	**$ 129,100.0**	**$ 174,900.0**
Tax Enforcement			
11. Compliance Enforcement - Delinquent Bus. Tax Accts	$ 3,200.0	$ 7,800.0	$ 11,000.0
12. Income Tax Automation	$ 400.0	$ 3,650.0	$ 4,050.0
13. Use Tax Audit Letters to Businesses	$ 800.0	$ 1,700.0	$ 2,500.0
Subtotal Tax Enforcement	**$ 4,400.0**	**$ 13,150.0**	**$ 17,550.0**
Other Revenue Measures			
14. Liquor Revenue	$ -	$ 24,100.0	$ 24,100.0
15. Lottery Revenue Increase	$ 15,000.0	$ -	$ 15,000.0
Total	**$ 65,200.0**	**$ 166,350.0**	**$ 231,550.0**

February 12, 2009